Likes/Dislikes - January 1, 2021

Below are Evergreen Gavekal's Likes/Dislikes for January 1, 2021.

OUR CURRENT LIKES AND DISLIKES

Changes highlighted in **bold**.

As an overarching recommendation, present market conditions have become so hyper-bullish that this author is suggesting significant profit-taking; related to this, new buys should be limited to those securities that offer a compelling risk/reward proposition. Gold miners are an example of the latter after their correction since this summer's spectacular run-up.

LIKE

- Large-cap growth. (For the most part, there continues to a better risk/reward ratio with growth-at-a-reasonable-price—GARP—type issues; as with the overall US stock market, bargains are increasingly scarce.)
- Certain international developed markets, especially Japan (The Japanese market has been extremely strong lately; thus, prudence on new buys is appropriate. Longer term, though, the Nikkei has had a multi-year breakout, a highly positive development.)
- **Publicly-traded pipeline partnerships, i.e., MLPs and other mid-stream energy securities. (A year-end sell-off has improved the risk/reward status for these still beaten-down issues; a rising risk, however, is the Georgia Senate run-off.)**
- Gold-mining stocks (Pfizer's vaccine announcement triggered a sharp correction in the gold miners, creating a decent buying opportunity.)
- Gold (Both gold and silver have held up better than the miners; for now, miners appear more attractive.)
- Silver
- Select international blue chip oil stocks (Buy more carefully after the recent robust rally.)
- Short-term investment grade corporate bonds (1-4 year maturities)
- Emerging market (EM) bonds in local currency (focusing on stronger countries)
- Large-cap value (Value stocks, such as energy and financial issues, have been the biggest winners from the vaccine news; accordingly, buy somewhat more cautiously even though this style is likely to be among the main beneficiaries of the reflation/reopening trends in 2021.)
- Copper producers. (Copper itself is looking very overbought, excessively popular with the hedge fund community and, consequently, vulnerable to a sharp correction.)
- High-dividend equities with *safe* distributions (As interest rates disappear, investors will go searching for yield; as with energy and other value sectors, high-dividend stocks have been on fire of late so dialing back on purchases is appropriate.)
- Most cyclical resource-based stocks (Buy more carefully but considerable long-term upside remains as many of these are beneficiaries of inflation/pricing power due to supply chain disruptions and Fed debt monetization.)
- BB-rated corporate bonds (Buy more selectively after a spectacular rally.)
- A wide range of high-income securities, including preferred stocks (Many of these have surged, as well, so buy less aggressively.)

- Canadian REITs (Avoid office issues for now.)
- South Korean Equities (This is another area in which to be less aggressive given how much this market has risen since late March.)
- Small-cap value (Based on the recent vaccine-driven rally, a buying pause is prudent; small cap issues are typically hit the hardest during corrections and COVID infections trends are worsening, elevating the chances of a pull-back.)
- Intermediate-term investment-grade corporate bonds, yielding approximately 2.5% (This is another corner of the bond market the Fed is actively supporting; attractive yields are becoming harder to come by, however.)
- Uranium and uranium producers (The world's leading uranium miner is up nearly 40% in the last month, validating our positive stance on this sub-sector; at this point, hold off on initiating new positions though we continue to like the long-term outlook for U2-related securities).
- Certain "Virus Victim" equities such as refiners, homebuilders, and select retail stocks (After a powerful rally in homebuilders and certain retailers, be more selective; subsequent to breaking support and falling initially post that break, refiners have roared back on the vaccine news but operating conditions are likely to remain adverse for the next few months, if not longer.)
- Investment-grade floating rate corporate bonds (Despite a vigorous rally in recent months, there remains decent long-term value in this bond market niche.)
- The higher quality mortgage REITs (These have risen materially from our initial recommendation; therefore, less aggressive buying is appropriate even though we continue to like the multi-year outlook.)

NEUTRAL

- **Renewable Yield Cos (After a robust rally, some profit-taking is appropriate especially in tax-sheltered accounts like IRAs.)**
- Mid-cap value
- Emerging stock markets; however, a number of Asian developing markets look undervalued (Caveat investor: These are much less bargain-rich than they were a few months ago).
- US-based Real Estate Investment Trusts (REITs) (It is critical to be highly selective with this sector; fundamentals for many REITs are likely to be very challenged.)
- Cash
- Long-term Treasury bonds
- Canadian dollar-denominated short-term bonds (Thanks to a rebound in the Canadian dollar, these have provided solid returns in recent months; some profit realization may be prudent.)
- Intermediate-term Treasury bonds
- One- to two-year Treasury notes
- Traditionally "safe" sectors such as Staples and Utilities
- Virus Victors (I.E, those companies that have benefitted from global lockdowns and now sport premium valuations.)
- Small-cap growth
- Long-term investment grade corporate bonds (Following intervention by the Fed, this asset class experienced a powerful rally off the March lows and current yields are no longer attractive. Inflation concerns could also eventually become an issue at such low yields.)

DISLIKE

- European banks (Moving to dislike status due to a second round of lock-downs in many key eurozone countries; additionally, negative interest rates in Europe are very hard on bank profitability.)
- Most municipal bonds (Both intermediate-term and long-term muni bonds have had big rallies with the Fed entering the market, rewarding those who followed our buy recommendation earlier. We are now moving munis to dislike due to our longer-term inflation concerns and also as a result of the present paltry yields.)
- US dollar (The dollar has been weak lately so a less bearish stance is appropriate. However, its long-term outlook appears very challenging and it remains materially overvalued.)
- Many semi-conductor tech stocks (We do have a number of semi holdings for Evergreen client; however, these were typically acquired far lower than where they trade today and, overall, this space appears generally over-valued with a few exceptions.)
- Mid-cap growth
- Floating rate bank loans (This refers to the junk variety; spreading bankruptcies and a big price recovery push this asset class back down into the dislike category.)
- Lower-rated junk bonds

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